PIRC

2nd April 2019

PIRC ALERTS

UPCOMING MEETINGS

1. HEWLETT PACKARD ENTERPRISE COMPANY
2. FERROVIAL S.A.
3. STRAUMANN HOLDING AG

NEWS

1. Superdry guy
2. Executive pay: seachange
3. The US governance election
4. Always knowingly undersold

QUOTE OF THE WEEK

"For the big firms, audits seem too often to be the route to milking the cash-cow of consultancy business. The client relationship, and the conflicts of interest which abound, undermine the professional scepticism needed to deliver reliable, high-quality audits. Splitting audit from non-audit business would be a big step to boosting the culture of challenge needed to deliver high-quality audits."

Rachel Reeves, Business Committee chairwoman in: "MPs order break-up of big four accountants amid intense scrutiny", itv.com, 02/04/2019

HEWLETT PACKARD ENTERPRISE COMPANY

AGM, 03 April 2019

Hewlett Packard Enterprise Company is headquartered in California. Hewlett Packard Enterprise Company provides enterprise information technology solutions through five business segments: Enterprise Group; Software; Enterprise Services; Financial Services; Corporate Investments.

1a Re-elect Daniel Ammann
Non-Executive Director,Daniel Ammann, is considered independent.
A **For Vote** is recommended

1b Re-elect Michael J. Angelakis
Non-Executive Director, Michael J. Angelakis, is considered independent.
A **For Vote** is recommended

1c Re-elect Pamela L. Carter
Non-Executive Director, Pamela L. Carter, is considered independent.
A **For Vote** is recommended

1d Elect Jean. M. Hobby
Non-Executive Director, Jean. M. Hobby, is considered independent.
A **For Vote** is recommended

1e Re-elect Raymond J. Lane
Non-Executive Director, Raymond J. Lane, is not considered independent as he previously served as Executive Chairman of Hewlett-Packard Company. There is sufficient independent representation on the Board. It is noted he received a 19.5 % vote against his election at the annual meeting 2018.
A **For Vote** is recommended

1f Re-elect Ann M. Livermore
Non-Executive Director, Ann M. Livermore, is not considered independent as she previously served as Executive Vice President of Hewlett-Packard Company. There is sufficient independent representation on the Board.
A **For Vote** is recommended

1g Re-lect Antonio F. Neri
President and Chief Executive Officer is Antonio F. Neri.
A **For Vote** is recommended

1h Re-elect Raymond E. Ozzie
Non-Executive Director, Raymond E. Ozzie, is considered independent.
A **For Vote** is recommended

1i Re-elect Gary M.Reiner

Non-Executive Director, Gary M.Reiner, is considered independent. It is noted that the shareholders right to physically attend a meeting has been removed. This is considered a governance concern and as such opposition is recommended for members of the governance committee.

An **Oppose Vote** is recommended

1j Re-elect Patricia F. Russo

Non-Executive Director, Patricia F. Russo, is considered independent. It is noted that the shareholders right to physically attend a meeting has been removed. This is considered a governance concern and as such opposition is recommended for members of the governance committee.

An **Oppose Vote** is recommended

1k Re-elect Lip-Bu Tan

Non-Executive Director, Lip-Bu Tan, is not considered independent as the director has a cross directorship with Mary Agnes as Board members of Cadence Design Systems. It is noted that the shareholders right to physically attend a meeting has been removed. This is considered a governance concern and as such opposition is recommended for members of the Governance committee.

An **Oppose Vote** is recommended

1l Re-elect Mary Agnes Wilderotter

Non-Executive Director, Mary Agnes Wilderotter, is not considered independent as the director has a cross directorship with Lip-Bu Tan as Board members of Cadence Design Systems. However, there is sufficient independent representation on the Board.

A **For Vote** is recommended

2 Appoint the Auditors

EY proposed. Non-audit fees represented 39.73% of audit fees during the year under review and 39.78% on a three-year aggregate basis. This level of non-audit fees raises some concerns about the independence of the statutory auditor. The current auditor has been in place for more than five years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor.

An **Abstain Vote** is recommended

3 Advisory Vote on Executive Compensation

The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment.

Disclosure: Fiscal 2018 financial goals were focused on corporate revenue and operating profit. The MBO component of the annual incentive program became a modifier of financial funding rather than an equally weighted measure, and was based on a pre-established formulaic objective directly related to HPE Next cost savings. The achievement of (or failure to achieve) such pre-established MBOs may result in a 20% increase (or 20% decrease) to financial funding, with the outcome dependent on a preset performance schedule that was established at the beginning of the performance period. The Company granted long-term incentives that consisted of a value-based mix of two equity vehicle : PARSU (Performance-adjusted Restricted Stock Units) which were introduced for fiscal 2018, representing 50% of each executive's annual grant value and RSU (Restricted Stock Units) respresenting 50% of each executive's annual grant value. The Company has failed to provide the fees it paid the Compensation Consultants. The disclosure of these fees is encouraged in the interests of greater transparency. The peer groups used for the purpose of pay comparison have been fully disclosed by the Company. The grant of performance awards was based on the achievement of set levels of specific performance targets.

Balance: For fiscal year 2018, annual cash awards were excessive and payout exceeded 200% of base salary. The long-term incentive awards derived from stock options is determined by share price growth, the awards of options have no performance conditions attached. Thus an increase in share price over the lifespan of an option (and falls are unusual) can reward executives even in circumstances of poor relative performance. RSUs and PARSUs vest ratably on an annual basis respectively over three and two years from the date of grant which is not considered sufficiently long-term. Awards under the annual-incentive plans are tied to multiple performance conditions, which is considered best practice. Performance measures attached to long-term incentives do not duplicate those attached to other awards, which is considered acceptable practice. The Company uses adjusted performance metrics for most elements of compensation. The use of non-GAAP metrics prevents shareholders from being able to assess fully whether the performance targets are sufficiently challenging. For the year under review, annual bonus payouts are considered to be excessive as they represent more than 200% of base salary. The Company does not consider non-financial metrics in its assessment of performance. Non-financial parameters allow the remuneration policy to go beyond financial parameters, which are generally beyond an individual director's control to focus on the operational performance of the business as a whole and the individual roles of each of the senior executives in achieving that performance. Executive compensation is aligned with peer group averages. In addition, executive compensation is also aligned with companies of a similar market cap. Performance metrics are replicated under different incentive plans, raising concerns that executives are being rewarded twice for the same performance. Retention awards make up a significant portion of the long-term incentives and therefore the scheme does not link pay to performance.

Contracts: Potential severance entitlements in a change of control scenario are considered excessive as they exceed three times the base salary Change-in-control payments are subject to double-trigger provisions. 'Good reason' is not defined appropriately, such that the Remuneration Committee is able to apply discretion when determining the status of a departing executive. The Compensation Committee has full discretion to accelerate the vesting of awards upon a change of control, which is a concern. The claw-back policy is considered appropriate as it applies to short- and long-term incentives, and is not limited to cases of financial misstatement.

An **Oppose Vote** is recommended

4 Shareholder Resolution: Written Consent

Proposed by: John Chevedden

It is proposed that the Board of Directors undertake such steps as may be necessary to permit written consent by shareholders entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting.

Proponent's Supporting Argument: The Proponent argues that numerous Fortune 500 companies provide for both shareholder rights to act by written consent and to call a special meeting. In addition, the proponent argues that action by written consent will make up for management abruptly taking away an important shareholder right-the right to an in-person annual meeting.

Board's Opposing Argument: The Board is against this proposal as it believe the transparency and fairness of the annual or special meeting process better serve shareholder's interests. The Board also argues that proposing action by written consent deprives stockholders of a forum for discussion or opportunity to have a meaningful and structured exchange of views with the Board and other stockholders before acting.

PIRC Analysis: Action by written consent would circumvent the important deliberative process of a shareholder meeting. As a result, up to 49% of the Company's shareholders could be prevented from voting, or even receiving accurate and complete information, on important pending actions. While it is considered that the Board should remain accountable to its shareholders regardless of the method of communication chosen there are concerns that using written consent could lead to minority shareholders losing the ability to have their say on matters affecting the company.

An **Oppose Vote** is recommended

FERROVIAL S.A.

AGM, 05 April 2019

Ferrovial, S.A., founded by Rafael del Pino y Moreno in 1952 as a railroad construction company, is a multinational company involved in the design, construction, financing, operation and maintenance of transport, urban and services infrastructure.

1.1 Approve Financial Statements
Disclosure is adequate. The financial statements were made available sufficiently before the meeting and have been audited and certified. No serious governance concerns have been identified.
A **For Vote** is recommended

2 Approve the Dividend
It is proposed to approve the allocation of financial year 2018 income, which amounts to EUR 48,32 million, in its entirety to voluntary reserves. Acceptable proposal.
A **For Vote** is recommended

4 Appoint the Auditors
Deloitte proposed. Non-audit fees represented 6.67% of audit fees during the year under review and 8.57% on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor. The current auditor has been in place for more than five years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor.
An **Abstain Vote** is recommended

5.1 Re-elect Rafael del Pino y Calvo-Sotelo
Chairman and CEO, Rafael del Pino y Calvo-Sotelo has combined roles at the head of the Company. There should be a clear division of responsibilities at the head of the Company between the running of the board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision. Combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal.
An **Oppose Vote** is recommended

5.2 Re-elect Santiago Bergareche Busquet
Non-Executive Director, Santiago Bergareche Busquet, is not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

5.3 Re-elect Joaquin Ayuso Garcia
Non-Executive Director, Joaquin Ayuso Garcia, is not considered independent as the Director was a past employee of the Company. He was CEO of Grupo Ferrovial from 2002 through 2009. There is insufficient independent representation on the Board. Opposition is recommneded.
An **Oppose Vote** is recommended

5.4 Re-elect Inigo Meiras Amusco
Chief Executive is Inigo Meiras Amusco.
A **For Vote** is recommended

5.5 Re-elect Maria del Pino y Calvo-Sotelo
Non-Executive Director, Maria del Pino y Calvo-Sotelo, is not considered independent as she is a member of the founding family Del Pino, which is the controlling shareholder of the Company. There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

5.6 Re-elect Santiago Fernandez Valbuena
Non-Executive Director, Santiago Fernandez Valbuena, is not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

5.7 Re-elect Jose Fernando Sanchez-Junco Mans
Non-Executive Director, Jose Fernando Sanchez-Junco Mans, is not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

5.8 Re-elect Joaquin del Pino y Calvo-Sotelo
Non-Executive Director, Joaquin del Pino y Calvo-Sotelo, is not considered independent as the Director is a member of the Del Pino y Calvo Sotelo family which are major shareholders.There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

5.9 Re-elect Oscar Fanjul Martin
Non-Executive Director, Oscar Fanjul Martin, is considered independent.
A **For Vote** is recommended

5.10 Elect Bruno Di Leo
Non-Executive Director, Bruno di Leo, is considered independent.
A **For Vote** is recommended

6 First Authority for the Scrip Dividend
Authority to approve a capital increase against voluntary reserves to issue bonus shares, which will be distributed to shareholders instead of cash, as dividend. Shareholders will receive one free

allotment right for every share they own, which may be traded on the stock exchange for a period of 15 days at the end of which time they will be converted into shares. The Company commits to acquire the rights from all holders at a fixed price, which guarantees that shareholders can receive the dividend in cash.
Shareholders who elect to receive the dividend in cash will experience dilution of their holdings. Nevertheless, the proposal is considered acceptable.
A **For Vote** is recommended

7 Second Authority for the Scrip Dividend
Authority to approve a capital increase against voluntary reserves to issue bonus shares, which will be distributed to shareholders instead of cash, as dividend. Shareholders will receive one free allotment right for every share they own, which may be traded on the stock exchange for a period of 15 days at the end of which time they will be converted into shares. The Company commits to acquire the rights from all holders at a fixed price, which guarantees that shareholders can receive the dividend in cash.
Shareholders who elect to receive the dividend in cash will experience dilution of their holdings. Nevertheless, the proposal is considered acceptable.
A **For Vote** is recommended

8 Authorise Cancellation of Treasury Shares
The Board requests authorisation to reduce share capital via cancellation of own shares. It is considered that this does not have a negative effect on shareholder rights.
A **For Vote** is recommended

9 Authorize Increase in Capital up to 50 Percent via Issuance of Equity or Equity-Linked Securities, Excluding Preemptive Rights of up to 20 Percent
It is proposed to issue new shares with pre-emptive rights for up to than 50% of the current share capital. However, the duration of the proposed authority exceeds 26 months.It is also proposed to allow the dis-application of preemptive rights on shares issued for up to 20% of the share capital. This exceeds guidelines of 10%, and s considered to have a negative dilutive effect on shareholders.
An **Oppose Vote** is recommended

10 Issue Bonds and Debt Securities
Authority is shought to issue convertible debt. The part of the authority without pre-emptive rights is up to 50% of the share capital excluding preemptive rights more than 10% of the companys equity.
An **Oppose Vote** is recommended

11 Approve Remuneration Policy
It is proposed to approve the remuneration policy with a binding vote.Variable remuneration appears to be consistently capped and the maximum potential payout is in line with best practice.In addition, the Company has not disclosed quantified targets for the performance criteria of its variable remuneration component, which may lead to overpayment against underperformance. There are claw back clauses in place over the entirety of the variable remuneration, which is welcomed.
An **Oppose Vote** is recommended

12 Approve Restricted Stock Plan
The Board proposes the approval of a new executive incentive plan. Under the plan, participants will be allotted shares or rights to shares. Performance targets have not been quantified at this time. which makes an informed assessment impossible and may lead to (partial) payment against (partial) failure.
LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the Company (creating capital and - lawful - dividends). They act as a complex and opaque hedge against absolute Company underperformance and long-term share price falls. They are also a significant factor in reward for failure.
An **Oppose Vote** is recommended

13 Approve Total or Partial Sale of Assets of the Services Division of the Ferrovial Group
The Board requests authorisation to divest all or part of the assets of the service division of the Company. According to section 160 of the Capital Companies Act, the general meeting has the power to authorize the disposing of essential assets. The Board suggest to proceed in the sales of assets in one or several transactions, with the aim to create long-term value for the shareholders. Such resolutions are judged on whether they are fair and reasonable, and whether they have sufficient independent oversight. The independence of the Board is not sufficient.
An **Abstain Vote** is recommended

15 Approve the Remuneration Report
It is proposed to approve the annual report on remuneration of Executive and Non-Executive Directors with an advisory vote. The Company discloses all elements of remuneration for Executives and Non-Executives. The payout is in line with best practice, being under 200% of the fixed salary. There are claw back clauses in place over the entirety of the variable remuneration, which is welcomed. However, the Company has not fully disclosed quantified targets against which the achievements and the corresponding variable remuneration has been calculated. Although a common practice in this market as this is deemed to be sensitive information, it prevents an accurate assessment and may lead to overpayment against underperformance.
An **Abstain Vote** is recommended

STRAUMANN HOLDING AG

AGM, 05 April 2019

The Straumann Group is a Swiss Company offering products and services in implant, restorative and regenerative dentistry to dental professionals and dental laboratories.

1.1 Approve Consolidated Financial Statements and the Management Report

Disclosure is adequate. The financial statements were made available sufficiently before the meeting and have been audited and certified. However, there are serious concerns over the Company's sustainability policies and practice. There are no directors up for election at this meeting, who could be held accountable for the Company's sustainability programme.

An **Oppose Vote** is recommended

1.2 Approve the Remuneration Report

It is proposed to approve the remuneration policy with an advisory vote. Although variable remuneration appears to be consistently capped, there are excessiveness concerns as the total potential variable remuneration exceed 200% of the salary. In addition, the Company has not disclosed quantified targets or performance criteria for its variable remuneration component, which may lead to overpayment against underperformance. There are no claw back clauses in place, which falls short of best practice in this market.

An **Oppose Vote** is recommended

2 Approve the Dividend

The Board proposes a dividend of CHF 5.25 per share. The dividend is covered by earnings. Acceptable proposal.

A **For Vote** is recommended

3 Discharge the Board

The Company has not appointed a Data Protection Officer. Under the GDPR, it is mandatory for certain controllers and processors to designate a Data Protection Officer (DPO). It is considered that boards should ensure that risk assessment (including data protection and cyber risk) is complete for the entire organisation, and that appropriate security is provided for each type of data under use. Applicable from 25 May 2018, it is considered that directors should be considered accountable for this lack of discussion and relevant appointment.

An **Abstain Vote** is recommended

4 Approve Fees Payable to the Board of Directors

It is proposed to increase the amount payable to the Board of Directors by less than 10% on annual basis (from CHF 2.4 million to CHF 2.7 million). Within recommended guidelines.

A **For Vote** is recommended

5.1 Approve Fees Payable to the Executive Committee

It is proposed to increase the amount payable to the Board of Directors by less than 10% (from CHF 6.9 million to CHF 7.3 million) on annual basis. Within recommended guidelines.

A **For Vote** is recommended

5.2 Approve Long-Term Variable Remuneration of Executive Committee

It is proposed to approve the cap of the short-term variable compensation component of executive remuneration at CHF 3.9 million. Variable remuneration appears to be consistently capped, and the payout is in line with best practice. However, the Company has not fully disclosed quantified targets for the performance criteria of its variable remuneration component, which as a consequence may lead to overpayment against underperformance. In addition, there are no claw back clauses in place over the entirety of the variable remuneration component which makes it unlikely that shareholders will be able to reclaim any variable remuneration unfairly paid out.

An **Oppose Vote** is recommended

5.3 Approve Short-Term Variable Remuneration of Executive Committee

It is proposed to approve the cap of the long-term variable compensation component of executive remuneration at CHF 6.1 million. Variable remuneration appears to be consistently capped, and the payout is in line with best practice. However, the Company has not fully disclosed quantified targets for the performance criteria of its variable remuneration component, which as a consequence may lead to overpayment against underperformance. In addition, there are no claw back clauses in place over the entirety of the variable remuneration component which makes it unlikely that shareholders will be able to reclaim any variable remuneration unfairly paid out.

An **Oppose Vote** is recommended

6.1 Re-elect Gilbert Achermann

Non-Executive Chairman, Gilbert Achermann, is not considered to be independent as he was CEO of Straumann Holding until 31 March 2010. It is considered that a former executive should not be appointed as Chairman, as his previous responsibilities may hinder an independent supervision of management.

An **Oppose Vote** is recommended

6.2 Re-elect Monique Bourquin
Non-Executive Director, Monique Bourquin, is considered independent. However, there are concerns over the director's potential aggregate time commitments.
An **Abstain Vote** is recommended

6.3 Re-elect Sebastian Burckhardt
Non-Executive Director, Sebastian Burckhardt, is not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

6.4 Re-elect Ulrich Looser
Non-Executive Director,Ulrich Looser, is not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

6.5 Re-elect Beat Luethi
Non-Executive Director, Beat Luethi, is not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

6.6 Re-elect Thomas Straumann
Non-Executive Director, Thomas Straumann, is not considered to be independent as he is a significant shareholder. There is insufficient independent representation on the Board.
An **Oppose Vote** is recommended

6.7 Re-elect Regula Wallimann
Non-Executive Director, Regula Wallimann, is considered independent.
A **For Vote** is recommended

6.8 Elect Juan-Jose Gonzalez
Non-Executive Director, Juan-Jose Gonzalez, is considered independent.
A **For Vote** is recommended

7.1 Re-elect Remuneration Committee Member Monique Bourquin
This director is considered to be independent. Support would be normally recommended. Due to the concerns over the potential aggregate time commitments for this Director, it is considered that she may not have the sufficient time for this position as member of the Remuneration Committee.
An **Abstain Vote** is recommended

7.2 Re-elect Remuneration Committee Member Ulrich Looser
Non-Executive Director, Ulrich Looser, is candidate to the Remuneration Committee on this resolution. It is considered that the Remuneration Committee should consist exclusively of independent members.
An **Oppose Vote** is recommended

7.3 Re-elect Remuneration Committee Member Thomas Straumann
Non-Executive Director, Thomas Straumann, is candidate to the Remuneration Committee on this resolution. It is considered that the Remuneration Committee should consist exclusively of independent members.
An **Oppose Vote** is recommended

8 Appoint Independent Proxy
NEOVIUS proposed as the independent proxy to act on behalf of shareholder voting, for one-year term. The named proxy has no other commercial relationship with the company.
A **For Vote** is recommended

9 Appoint the Auditors
EY proposed. Non-audit fees represented 22.57% of audit fees during the year under review and 29.01% on a three-year aggregate basis. This level of non-audit fees raises some concerns about the independence of the statutory auditor.
An **Abstain Vote** is recommended

Superdry guy

One of the key arguments that Superdry founder and former chief executive Julian Dunkerton made in his attacks on the company's current leadership ahead of today's EGM is that they don't understand fashion branding. Based on the outfits sported by his opponents at the Gresham Street showdown, perhaps he had a point.PIRC doesn't take fashion red flags into account when making voting voting recommendations. If we did, the result of the of Dunkerton Putsch might not have been so close. A full five members of the board, including chief executive (for now) Euan Sutherland and chair Peter Bamford were clad in jeans. But these were typically as part of a Jeremy Clarkson style "smart casual" combo complete with work shirts and sensible shoes. At least the SID Dennis Millard went the extra mile and stuck on a pair of Converse.But they were no match for Dunkerton and his leather-jacket-wearing sidekick James Holder, and not just in the style stakes. Bamford, the only board member to utter a single word during the meeting, told shareholders at the start of the EGM that, while 75% of the non-Dunkerton vote had supported the board, based on on proxy votes received before the meeting the two dissident resolutions had passed. That puts Dunkerton and Peter Williams on the board.With the result know so early, the formal business of the meeting only lasted 30 minutes. But that was long enough for a string of shareholders, led by former CFO Chas Howes, to rip into the board. Howes accused the board of only wanting to line their own pockets, and failing to understand brand strategy. Another shareholder said the board was "not fit for purpose" and should quit. Bamford was asked if he had any response to Dunkerston's critique of the board's strategy, but merely replied that there was nothing more to say. He in turn asked other board members if they wanted to say anything. Silence. The fight was over.That said, the result was tight, very tight, 51.15% to 48.85% (at least it wasn't 52:48) and the lack of external shareholder support for Dunkerton's re-instatement may give him his own problems further down the line. But for now all focus will be on the current board with an emergency board meeting planned. Shareholders had previously been warned that the board would resign en masse if Dunkerton won. Whether they follow through on that threat remains to be seen. But it seems likely that Sutherland and Bamford will be early casualties. Board room change at Superdry may have only just begun.

Executive pay: seachange

Last week the BEIS committee released its long-awaited report on executive pay. There is much in it that PIRC strongly agrees with, but more importantly it puts a marker down in terms of the public policy discussion around top pay. And it is increasingly obvious that the ground is shifting. Non-one who follows the discussion of this thorniest of corporate governance issues should be under any illusions: policymakers are running out of patience with shareholder oversight as the primary tool for restraining corporate largesse. Or, more specifically, they doubt that asset managers are up to the job. The report concludes: "Investors have the powers but neither the will nor the incentives to exert downward pressure on executive pay. Better stewardship alone cannot be expected to achieve acceptable outcomes." Instead the committee calls on asset owners - pension funds and others - to play a larger role. It also sees the need to involve other stakeholders, notably employees, and for greater prescription regarding what is acceptable. The report repeatedly notes the disparity between pay for executives and that of their workforce, and the need for much closer alignment. And, significantly, regulatory intervention is advocated numerous times as the tool for correcting poor practice. There can be little doubt that the UK is moving away from the 'light touch' approach to executive remuneration, based on greater corporate disclosure and enhanced shareholder powers, that had been dominant since the 1990s. Policymakers are looking for a new model because the largest shareholders have failed to restrain excess. As the BEIS committee chair Rachel Reeves MP told the Mail on Sunday: "Investors should be holding remuneration committees to account on executive pay, put the reality is that asset managers have too often shown they are not up to the task, unwilling to challenge and unbothered by huge pay awards." This really should be no surprise. As we noted last week, it has literally taken a decade from the financial crash for some shareholders to decide that preferential pensions treatment for directors is A Bad Thing. This is far too little, far too late. Many of those in the City who now claim to be outraged by high executive pay created the very problem they now decry. Every time they argued that the structure of remuneration was what mattered, not scale, they fed the beast. Every time that they voted for the remuneration policies that allowed executive reward to diverge from employee pay, they helped damage the public's faith in the system. And they did this year after year after year. What is more, asset managers also sought to frustrate other mechanisms for achieving accountability. One reform that the BEIS committee advocates, and that PIRC has long supported, is worker representation on remuneration committees. But in their responses to the previous BEIS committee inquiry on corporate governance, a number of the largest asset managers lined up with corporate lobbyists to argue against employee representation at board level. Well, time is up. We wholeheartedly agree with both the thrust and the detail of the committee's report. If asset managers won't do the job of investor oversight, asset owners will have to take over the reins. In a world where an increasing proportion of pension fund assets are invested passively, why do asset owners need their voting rights intermediated by an asset manager who only holds the stock because it's in the index? We have little doubt that if asset owners draw up their own policies, particularly with reference to beneficiaries' views, much tougher voting stances will emerge. And we can envisage a future where there is much greater interaction between asset owners and other stakeholders, in order to ensure that there is real restraint at the top. For our part, this is something that PIRC will do everything that it can to make happen. In the 1970s former Labour PM Jim Callaghan famously talked of a seachange in politics that comes every 30 years or so, when what the public wants and approves of shifts, and there is nothing anyone can do to oppose it. It feels like that moment has arrived with respect to executive pay. This tide is going out on the role of asset managers. It is time for others to take over.

The US governance election

Looking to the US, we note that a growing number of Democrats are looking at corporate governance reforms as a key element of a future policy platform. It's even making it into the pitches of some of the party's presidential hopefuls. For example, the growing use of share buybacks has been attacked by Democrats including Chuck Schumer, Bernie Sanders, Elizabeth Warren and Tammy Baldwin. Last week Senate Democrats held an open hearing hosted by Baldwin and fellow senator Debbie Stabenow at which a string of speakers attacked the proliferation of buybacks. These included long-time buyback sceptic Bill Lazonic, who attacked the prioritising of returning cash to shareholders this way, rather than by investing for long-term growth or paying better wages. It also seems that a number of Democrats have caught the bug for employee representation at board level. This was the second theem at last week's hearing, which heard a presentation from a Walmart worker who will present a resolution to the company's AGM seeking the election of a worker to its board. Elizabeth Warren is probably the most high profile of Democrats on this issue, having proposed that the workforce be able to appoint 40% of the directors of the boards of the larges companies in the US. However other likely runners are also supportive. Last October Baldwin initiated a letter to the SEC advocating that it consider "the merits of directly electing workers to company boards." It was signed by, amongst others, Warren, Sanders, Cory Booker and Kamala Harris. And , of course, Sanders is yet to unveil his policy pitch. It seems unlikely that he will want to run on less radical platform than Warren. This may all be for the birds. Donald Trump will run again and, given everything that has bounced off him so far, and the benefit of incumbency, will be hard to beat. Nonetheless, as in the UK, it seems that fundamental questions about the governance of companies are coming out of the deep freeze in the public policy discussion in the US. There are interesting times ahead.

Always knowingly undersold

As if setting new terms of debate for executive pay was not enough for the BEIS committee, this week it has also taken at audit. And again, there are fireworks. Following a string of corporate failures (that continues) where audit firms were as much use as a chocolate teapot, and after repeated and ultimately fatal criticism of the industry's 'regulator' the FRC, faith in the current approach is sorely lacking. The committee is well aware of the need for a shake-up and doesn't pull its punches. It is stinging in its criticism of the expectations gap that has arisen between auditors and the public and other stakeholders. Put simply, most of us expect auditors to ensure that companies are a) not fiddling their books and b) have enough money to make the payments they want to make. Its sounds simple, but, as the committee makes clear, accounting firms try to obscure their role. It says: "We do not accept the attempts of auditors - particularly the Big Four and Grant Thornton - to underplay the role or scope of audit, nor to implicitly blame the public for failing to understand the purpose of audit. Rather, the firms should focus on the poor quality of their audits, and on how they are falling short on what audits are for within the current framework." Similarly, the committee is critical of the failure to focus on capital adequacy, surely one of the most fundamental issues in accounting for both boards and shareholders. It says: "One of the central purposes of keeping accounts is to determine a company's profits and much of these are distributable in the form of dividends to shareholders. The laws that foster prudence in the payment of dividends and protect the company's capital form what is known as the 'capital maintenance regime'. We received evidence that there is little compliance with and enforcement of the capital maintenance regime." Given the way that auditors have sought to portray the reduced scope of the audit, even arguing against the expectation of fraud detection, the committee states: "Seldom can a product have been so undersold in public." The committee also supports the work of the Local Authority Pension Fund Forum, Columbia Threadneedle, Sarasin, Universities Superannuation Scheme and others in challenging the fundamentally flawed IFRS. Noting that there are now several legal opinions in existence on this critical issue, the committee criticises the FRC for not using the existence of the dispute as as reason to review its approach. It says: "Instead of resolving the issue, the FRC spent the best part of a decade fighting the concerns of a range of major institutional stakeholders about the flaws in IFRS and the ICAEW's interpretation of the law." As we know from experience, it has been a small, committed band of investors that has fought this battle. The committee's comments vindicate that fight, and investors in general should be grateful that it took place. The FRC's failure to act in the end utterly compromised its effectiveness as a regulatory body. We will not be sad to see it disappear. And we can expect further a shake up in the market. After years of foot-dragging over the issue of whether non-audit work compromises auditor independence, the committee says it's time for change. It calls for a full structural break-up of the Big Four and the creation of organisationally separate audit and consulting firms. Over the past few years the BEIS committee has become a real powerhouse. If it continues with the approach it has taken with the past week's reports on executive pay and audit PIRC is optimistic that we can shake the UK corporate governance mainstream out of its torpor.

PIRC advises institutional investors with assets in excess of £1.5 trillion.

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